

Legislative Audit Division

State of Montana



Report to the Legislature

March 2004

Financial-Compliance Audit For the Two Fiscal Years Ended June 30, 2003

Department of Agriculture

This report contains two recommendations directed to the Department of Agriculture. Issues addressed in this report include:

- ▶ Improving management controls
- ▶ Accounting misstatements

Direct comments/inquiries to:
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03-20

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Government Auditing Standards, the Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2003, will be issued by March 31, 2004. The Single Audit Report for the two fiscal years ended June 30, 2001, was issued on March 26, 2002. Copies of the Single Audit Report can be obtained by contacting:

Single Audit Coordinator
Office of Budget and Program Planning
State Capitol
Helena MT 59620
Phone (406) 444-3616

Legislative Audit Division
Room 160, State Capitol
PO Box 201705
Helena MT 59620-1705

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LEGISLATIVE AUDIT DIVISION

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John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

March 2004

The Legislative Audit Committee
of the Montana State Legislature:

This is our report on the financial-compliance audit of the Department of Agriculture for the two fiscal years ended June 30, 2003. This report includes two recommendations concerning improving management controls and accounting misstatements. The department's written response is included in this report.

We thank the director and his staff for the assistance and cooperation provided during the audit.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Scott A. Seacat", with a long horizontal flourish extending to the right.

Scott A. Seacat
Legislative Auditor



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Legislative Audit Division

Financial-Compliance Audit

For the Two Fiscal Years Ended June 30, 2003

Department of Agriculture

Members of the audit staff involved in this audit were Laurie Barrett,
Hollie Koehler, Laura L. Norris, and Tiowna Sherrill.

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Appointed and Administrative Officials

Department of Agriculture

W. Ralph Peck, Director

Frieda Houser, Administrator, Central Management Division

Gregory H. Ames, Administrator, Agricultural Sciences Division

Will Kissinger, Administrator, Agricultural Development Division

Administratively Attached Councils, Committees and Board

Agriculture Development Council

Montana Alfalfa Seed Committee

Mint Committee

Wheat and Barley Committee

Noxious Weed Advisory Council

Weed Seed Free Forage Advisory Council

Board of Hail Insurance

Pesticide Advisory Council

Organic Commodity Advisory Council

Potato Advisory Committee

Cooperative Development Center Advisory Committee

Cooperative Agriculture Pest Survey Advisory Committee

Department of Agriculture

This report contains the results of our financial-compliance audit of the Department of Agriculture (department) for the two fiscal years ended June 30, 2003. This report includes two recommendations to the department related to improving management controls and accounting misstatements.

We issued an adverse opinion on the department's financial schedules for each of the two fiscal years ended June 30, 2002, and 2003, which means the reader should not rely on the presented financial information and the supporting detailed information data on the Statewide Accounting, Budgeting, and Human Resources System for the reasons stated in the opinion in pages A-3 and A-4.

The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the department implement controls to ensure:

- A. Accounting staff receive continuous training relating to state accounting policy.
- B. The Central Management Division administrator or knowledgeable accounting staff review additional detailed financial reports in a timely manner.....7

Department Response: Concur. See page B-3.

Recommendation #2

We recommend the department follow state accounting policy when recording transfers or revenues and expenditures 9

Department Response: Concur. See page B-3.

Introduction

We performed a financial-compliance audit of the Department of Agriculture (department) for the two fiscal years ended June 30, 2003. The objectives of the audit were to:

1. Determine if the department complied with applicable state and federal laws and regulations.
2. Review the department's internal financial operations, administrative controls, and make recommendations for their improvement.
3. Determine if the department's financial schedules present fairly, in accordance with state accounting policy, the results of operations for the two fiscal years ended June 30, 2003.

This report contains two recommendations to the department. Other areas of concern deemed not to have a significant effect on the successful operations of the department are not included in this report but have been discussed with management. In accordance with section 5-13-307, MCA, we analyzed and disclosed the costs, if significant, of implementing the recommendations made in this report.

Background

The Constitution of the state of Montana mandates the legislature provide for a Department of Agriculture. The department's statutory functions and responsibilities are to:

1. Encourage and promote the interests of Montana agriculture.
2. Collect and publish agricultural statistics.
3. Assist, encourage, and promote the organization of farmers' institutes, agricultural societies, fairs, and other exhibitions of agriculture.
4. Adopt standards for grade and other classifications of farm products.
5. Assist in the development of economical and efficient marketing distribution systems.
6. Gather and distribute marketing information concerning supply, demand, price, and movement of farm products.

Introduction

7. Regulate and protect Montana agricultural activities through the administration of statutes related to agriculture.

The department is organized under the following divisions:

Central Management Division - includes the director's office and provides support to all of the programs in the department by performing accounting, fiscal management, payroll, personnel, purchasing, property control, data processing, and legal support functions.

Agricultural Sciences Division - administers agricultural programs relating to the production, manufacturing, and marketing of commodities exported from or distributed in the state. The division administers the Montana Pesticides Act, Crop Insect Detection Act, Vertebrate Pest Management Act, Agricultural Chemical Groundwater Protection Act, Noxious Weed Management Trust Fund Act, Commercial Feed and Fertilizer laws, Organic Certification program, and the department's Chemical Analytical Laboratory. Division personnel provide technical and consultant services to consumers and agricultural producers.

Agricultural Development Division - administers programs that promote Montana agriculture through market development and business assistance. The program provides administrative support to the Alfalfa Seed Committee, the Montana Wheat and Barley Committee, the Montana Agricultural Development Council, and the Board of Hail Insurance. The division includes the State Grain Laboratory, which performs tests to establish contract settlement prices between buyers and sellers of grain crops.

Findings and Recommendations

Management Controls

The objectives of management control structures include identifying risks to achieving management's control objectives and determining how to manage them; applying policies and procedures to ensure management and accounting directives are carried out; informing and communicating methods used to record, process, summarize, and report an organization's transactions; and assessing the quality of the control structure over time. Establishing accountability requires management to develop and implement a control structure for its operations. This audit report addresses the need for the department to implement controls to help prevent and detect misstatements in the accounting records.

The department's Central Management Division responsibilities include performing accounting, fiscal management, and data processing functions. In recent years, the department has had staff turnover in the division, which meant new staff were responsible for accounting and data processing.

During our audit period, Central Management Division personnel made entries to correct mistakes from previous fiscal years. In several cases, the entries did not correct the original problem, but created new or different errors. In some cases, these mistakes occurred because personnel were not aware of state accounting policy. In some of these circumstances, the errors could have been detected and corrected if the Central Management Division administrator or knowledgeable accounting staff did an additional review of detailed accounting reports in a timely manner. Turnover and new staff is common in state government. Developing and implementing a continuous training program related to state accounting policy would benefit new staff and help reduce the number of errors in the department's accounting records.

The following misstatements on the accounting records were made and not detected on a timely basis either because personnel were not aware of state accounting policy or review of the accounting records was not in sufficient detail.

Findings and Recommendations

Noxious Weed Management Trust Fund Misstatements

The department is responsible for administering the state's noxious weed management program. The department is responsible for the state's Noxious Weed Management Trust Fund which helps fund noxious weed management. This fund is recorded as a Permanent Fund which is used to account for activity that is legally restricted to the extent that only interest earnings may be spent. Revenues earned from the Noxious Weed Management Trust are transferred to a State Special Revenue Fund to pay the costs of the program. In fiscal year 2001-02, the department made accounting errors when it recorded receivables, payables, and transfers between the Permanent Fund and the State Special Revenue Fund. This caused the following misstatements:

Table 1	
<u>For the Fiscal Year Ended June 30, 2002</u>	
	<u>Over/(Under) Statement</u>
<u>Schedule of Changes in Fund Balance and Property Held in Trust</u>	
Permanent Fund	
Direct Entries to Fund Balance	\$724,272
Total Additions	\$724,272
Nonbudgeted Expenditures & Transfers-Out Adjustments	\$724,272
Total Reductions	\$724,272
State Special Revenue Fund	
Budgeted Revenues & Transfers-In	\$724,272
Direct Entries to Fund Balance	(724,272)
Total Additions	\$ 0
<u>Schedule of Total Revenues & Transfers-In</u>	
State Special Revenue Fund	
Other Financing Sources	\$724,272
Budgeted Revenues over Estimate	724,272
<u>Schedule of Total Expenditures & Transfers-Out</u>	
Agricultural Sciences Division	
Accounting Entity Transfers	\$724,272
Nonbudgeted Expenditures & Transfers-Out	724,272
Source: Compiled by Legislative Audit Division	

Hail Insurance

The department has an Enterprise Fund to record the financial activity of its Hail Insurance Program. An Enterprise Fund accounts for activity in a manner similar to a private business. The Hail Insurance Program is administered by the department to provide hail insurance coverage on

Findings and Recommendations

crops grown in Montana. It is supported by premiums paid by participating producers. The department made errors when it recorded revenues and accounts receivable in this fund during and before fiscal year 2001-02. In fiscal year 2002-03, the department attempted to correct the accounting records; however, the adjustments did not correct the activity and caused new errors. The following chart illustrates the total misstatements in the Enterprise Fund:

Table 2

Enterprise Fund Misstatements

	<u>Over/(Under) Statement</u>
<u>Schedule of Changes in Fund Balances</u>	
<u>and Property Held in Trust</u>	
For the Fiscal Year Ended June 30, 2002	
Fund Balance: July 1, 2001	(\$1,259,639)
Budgeted Revenues & Transfers-In	2,303,980
Prior Year Revenues & Transfers-In	(946,760)
Total Additions	\$1,357,220
 Budgeted Expenditures & Transfers-Out	 \$316,318
Total Reductions	\$316,318
 Fund Balance: June 30, 2002	 (\$218,737)
 For the Fiscal Year Ended June 30, 2003	
Fund Balance: July 1, 2002	(\$218,737)
Budgeted Revenues & Transfers-In	872,761
Prior Year Revenues & Transfers-In	176,917
Direct Entries to Fund Balance	(\$14,623)
Total Additions	\$535,055
 Prior Year Expenditures & Transfer-Out	 \$316,318
Total Reductions	\$316,318
 <u>Schedule of Total Revenues & Transfers-In</u>	
For Fiscal Year Ended June 30, 2002	
Charges for Services	\$1,357,220
Less: Prior Year Revenues & Transfers-In	(946,760)
Actual Budgeted Revenues & Transfers-In	2,303,980
 For Fiscal Year Ended June 30, 2003	
Charges for Services	\$1,049,678
Less: Prior Year Revenues & Transfers-In	176,917
Actual Budgeted Revenues & Transfers-In	872,761

Source: Compiled by Legislative Audit Division

Findings and Recommendations

Prior Year Adjustments and Fund Balance Adjustments

During our audit period there were a number of transactions where the department attempted to correct deferred revenue and accounts receivable and payable; and to reconcile federal revenues and expenditures. We found instances where prior year activity was incorrectly recorded as direct entries to fund balance. We also found instances where direct entries to fund balance were incorrectly recorded as prior year activity. State accounting policy provides for prior year accounts to record activity that relates to the immediately preceding fiscal year. Adjustments related to activity from years prior to the immediately preceding year should be recorded as direct entries to fund balance. Department staff were not aware of state policy for recording this type of activity.

In fiscal year 2002-03, the Federal Special Revenue Fund direct entries to fund balance are overstated by \$36,102; total revenues are understated by the same amount; prior year revenues are overstated by \$51,260; and deferred revenue is understated by \$15,068.

In the General Fund and the Federal Special Revenue Fund in fiscal year 2002-03, personnel decreased prior year expenditures instead of using direct entries to fund balance. This caused understatements in prior year expenditures of \$28,789 in the Agricultural Development Division, \$156,784 in the Agricultural Sciences Division, and overstatements of direct entries to fund balance of the same amounts.

In the Permanent Fund and State Special Revenue Fund in the Agricultural Sciences Division, errors occurred in recording prior year transactions. As a result, prior year expenditures and transfers-out are understated and direct entries to fund balance are overstated by \$69,475 in fiscal year 2002-03. In fiscal year 2001-02, other financing sources and prior year revenues are understated by \$69,475. Direct entries to fund balance are overstated by the same amount.

Current Year and Prior Year Activity

Through review of the department's fiscal year 2001-02 activity in the Federal Special Revenue Fund, we found instances where expenditures were charged to the wrong fiscal year. In one instance the department recorded \$46,235 in the Agricultural Development Division for prior year expenditures, but recorded the transactions as current year. In

Findings and Recommendations

another instance personnel incorrectly moved \$2,812 of current year expenditures to prior year expenditures in the Agricultural Sciences Division. These transactions overstate current year expenditures by \$43,423 and understate prior year expenditures by the same amount. Other instances of current year and prior year misstatements related to the Hail Insurance program were discussed on page 4 of this report.

Summary

The mistakes noted in the previous sections resulted in revenues, expenditures, and direct entries to fund balance misstatements. We were able to identify these mistakes through review of financial reports of the department. We believe that the Central Management Division administrator or knowledgeable accounting staff would also be able to find and correct these types of errors if additional detailed financial reports were reviewed timely. State accounting policy can be complex, and staff turnover is not uncommon. Implementing continuous training programs could help prevent errors.

Recommendation #1

We recommend the department implement controls to ensure:

- A. Accounting staff receive continuous training related to state accounting policy.**
- B. The Central Management Division administrator or knowledgeable accounting staff review additional detailed financial reports in a timely manner.**

Accounting Misstatements

State law requires the department to input all necessary transactions before the end of the fiscal year to present the receipt, use, and disposition of all money, for which it is accountable, in accordance with generally accepted accounting principles. This report section discusses instances where transactions recorded by the department resulted in misstatements on the accounting records.

State law and accounting policy provide guidance for recording activity between government agencies and between the primary government and its component units, such as universities. Transactions are recorded based on the type of activity and fund type. Depending on the type of activity,

Findings and Recommendations

transfers or revenues and expenditures should be recorded. Any transactions between the department and the state's universities should be recorded as revenues and expenditures. If the activity is within the department or with other state departments, transfers may be recorded.

The department grants money and is required by state law to send money to Montana State University- Bozeman. State accounting policy states this type of activity should be recorded as revenues and expenditures. The department correctly recorded this as expenditures in some instances and incorrectly recorded transfers in other instances.

The department is also required by state law to transfer monies to the General Fund on a regular basis. The activity related to the General Fund should be recorded as transfers. During our review of department transactions, we found instances where the department recorded transfers, and in other cases incorrectly recorded the activity. The following chart shows the total misstatements on the accounting records of the department as a result of these errors.

Table 3		
<u>Accounting Misstatements</u>		
	Fiscal Year 2002-03 <u>Over/(Under) Stated</u>	Fiscal Year 2001-02 <u>Over/(Under) Stated</u>
Agricultural Sciences Division		
Accounting Entity Transfers	\$270,685	\$15,000
Grants from State Sources	(\$240,161)	(\$15,000)
Operating Expenses	(\$ 30,524)	
Agricultural Development Division		
Accounting Entity Transfers		\$80,000
Grants from State Sources		(\$80,000)
Source: Compiled by Legislative Audit Division		

Department personnel believe there was little accounting guidance at the time they recorded this activity. In fiscal year 2002-03, they determined any activity required by state law would be recorded as transfers. Any

Findings and Recommendations

activity not required by state law, they would record revenues and expenditures. They noted starting July 1, 2003, there is a new state policy they will follow that will help them record the activity appropriately. The department should follow accounting standards and state policy when recording activity related to transfers or revenues and expenditures.

Recommendation #2

We recommend the department follow state accounting policy when recording transfers or revenues and expenditures.

Independent Auditor's Report & Agency Financial Schedules

LEGISLATIVE AUDIT DIVISION

Scott A. Seacat, Legislative Auditor
John W. Northey, Legal Counsel



Deputy Legislative Auditors:
Jim Pellegrini, Performance Audit
Tori Hunthausen, IS Audit & Operations
James Gillett, Financial-Compliance Audit

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

We have audited the accompanying Schedules of Changes in Fund Balances & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Agriculture for each of the fiscal years ended June 30, 2003, and 2002. The information contained in these financial schedules is the responsibility of the department's management. Our responsibility is to express an opinion on these financial schedules based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial schedules. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial schedule presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1, the financial schedules are presented on a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. The schedules are not intended to be a complete presentation and disclosure of the department's assets, liabilities, and cash flows.

The department recorded activity in the Private-Purpose Trust Fund that should have been recorded in the State Special Revenue Fund in fiscal years 2002-03 and 2001-02. The Private-Purpose Trust Fund is 100 percent overstated on the presented schedules, and the State Special Revenue Fund is understated by the amount of activity in the Private-Purpose Trust Fund on the presented schedules.

The State Special Revenue Fund in fiscal year 2001-02 is misstated due to an accounting error related to revenues and direct entries to fund balance. Other Financing Sources, Other Financing Sources Over (Under) Estimated, Budgeted Revenues & Transfers-In, and Budgeted Revenues & Transfers-In Over (Under) Estimated are each overstated by \$724,272 on the Schedule of Revenues & Transfers-In. Direct Entries to Fund Balance on the Schedule of Changes in Fund Balances & Property-Held in Trust for June 30, 2002 are understated by \$724,272.

The department made errors in recording expenditures and direct entries to fund balance in the Permanent Fund in fiscal years 2002-03 and 2001-02, causing overstatements and understatements on the Schedule of Changes in Fund Balances & Property Held in Trust. Direct Entries to Fund Balance are overstated in fiscal year 2001-02 by \$727,272 and understated in fiscal year 2002-03 by \$69,475. NonBudgeted Expenditures

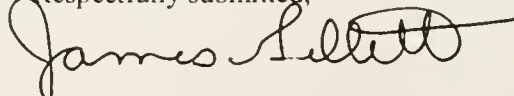
are overstated by \$727,272 in fiscal year 2001-02 and Prior Year Expenditures & Transfer-Out Adjustments are understated by \$69,475 in fiscal year 2002-03.

The department did not record revenues, expenses, and direct entries to fund balance correctly in the Enterprise Fund during fiscal years 2001-02 and 2002-03. The following is a chart of the total dollar misstatement for each of the two fiscal years.

<u>Enterprise Fund</u>	
<u>Schedule of Changes in Fund Balances and Property Held in Trust</u>	<u>Over/(Under) Statement</u>
For the Fiscal Year Ended June 30, 2002	
Fund Balance: July 1, 2001	(\$1,259,639)
Budgeted Revenues & Transfers-In	2,303,980
Prior Year Revenues & Transfers-In	(946,760)
Total Additions	\$1,357,220
 Budgeted Expenditures & Transfers-Out	 \$316,318
Total Reductions	\$316,318
 Fund Balance: June 30, 2002	 (\$218,737)
For the Fiscal Year Ended June 30, 2003	
Fund Balance: July 1, 2002	(\$218,737)
Budgeted Revenues & Transfers-In	872,761
Prior Year Revenues & Transfers-In	176,917
Direct Entries to Fund Balance	(514,623)
Total Additions	\$535,055
 Prior Year Expenditures & Transfer-Out	 \$316,318
Total Reductions	\$316,318
 <u>Schedule of Total Revenues & Transfers-In</u>	
For Fiscal Year Ended June 30, 2002	
Charges for Services	\$1,357,220
Prior Year Revenues & Transfers-In	(946,760)
Actual Budgeted Revenues & Transfers-In	2,303,980
 For Fiscal Year Ended June 30, 2003	
Charges for Services	\$1,049,678
Prior Year Revenues & Transfers-In	176,917
Actual Budgeted Revenues & Transfers-In	872,761

In our opinion, because of the effects of the matters discussed in the preceding paragraphs, the financial schedules referred to above do not present fairly, in conformity with the basis of accounting described in note 1, the results of operations and changes in fund balances and property held in trust of the Department of Agriculture for each of the fiscal years ended June 30, 2003, and 2002.

Respectfully submitted,



James Gillett, CPA

Deputy Legislative Auditor

January 6, 2004

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Agency Fund	Private-Purpose Trust Fund	Permanent Fund
FUND BALANCE: July 1, 2002	\$ (422,102)	\$ 3,720,451	\$ 40,993	\$ 5,226,701	\$ 993,908	\$ 3,512,327	\$ 4,757,616
PROPERTY HELD IN TRUST: July 1, 2002							
ADDITIONS							
Budgeted Revenues & Transfers-In	34,879	7,327,998	1,520,261	1,765,730			443,175
NonBudgeted Revenues & Transfers-In	210	175,348	305	85			3,944
Prior Year Revenues & Transfers-In Adjustments	(18,966)	(200,370)	(78,048)	872,032		236,495	(66,786)
Direct Entries to Fund Balance	1,306,568	188,881	3,171	(525,715)		(2,339)	14,194
Additions to Property Held in Trust					144,525		
Total Additions	1,322,691	7,431,857	1,445,689	2,112,132	144,525	167,370	461,313
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	1,194,447	6,791,854	1,578,574	2,079,493			
NonBudgeted Expenditures & Transfers-Out	18,599	344,437		24,075		148,518	318,385
Prior Year Expenditures & Transfers-Out Adjustments	(93,692)	(186,081)	(7,809)	(59,050)		(21,900)	(171,889)
Reductions in Property Held in Trust					814,525		
Total Reductions	1,119,354	6,950,210	1,570,765	2,044,518	814,525	126,618	146,496
FUND BALANCE: June 30, 2003	\$ (218,765)	\$ 4,202,098	\$ (84,083)	\$ 5,294,315	\$ 323,908	\$ 3,553,079	\$ 5,072,433
PROPERTY HELD IN TRUST: June 30, 2003							

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF CHANGES IN FUND BALANCES & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private-Purpose Trust Fund	Permanent Fund
FUND BALANCE - July 1, 2001	\$ (510,884)	\$ 7,424,823	\$ 340	\$ 6,445,549	\$ 4	\$ 2,679,350	\$ 0	\$ 4,758,752
PROPERTY HELD IN TRUST July 1, 2001								
ADDITIONS								
Budgeted Revenues & Transfers-In	30,830	6,857,836	1,375,237	712,528				
NonBudgeted Revenues & Transfers-In	276	121,204	518	375			243,602	446,652
Prior Year Revenues & Transfers-In Adjustments		9,892	181	(273,806)			(42,028)	29
Direct Entires to Fund Balance	1,883,924	(3,586,198)	3,592	430,603	(4)		3,414,477	736,194
Additions to Property Held in Trust						927,306		
Total Additions	1,915,030	3,422,734	1,379,528	869,700	(4)	927,306	3,616,051	1,182,875
REDUCTIONS								
Budgeted Expenditures & Transfers-Out	1,941,538	7,228,477	1,316,627	2,194,897				
NonBudgeted Expenditures & Transfers-Out	(66,894)	(57,247)		(4,374)			103,672	1,184,011
Prior Year Expenditures & Transfers-Out Adjustments	(48,396)	(44,124)	22,248	(101,975)		2,612,748	52	
Reductions in Property Held in Trust			1,338,875	2,088,548		2,612,748	103,724	1,184,011
Total Reductions	1,826,248	7,127,106						
FUND BALANCE - June 30, 2002	\$ (422,102)	\$ 3,720,451	\$ 40,993	\$ 5,226,701	\$ 0	\$ 993,908	\$ 3,512,327	\$ 4,757,616
PROPERTY HELD IN TRUST June 30, 2002								

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

TOTAL REVENUES & TRANSFERS-IN BY CLASS						
	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Private-Purpose Trust Fund	Permanent Fund
						Total
Licenses and Permits	\$ 18,125	\$ 1,957,681				\$ 1,975,806
Taxes	210	1,978,122	\$ 305	84	\$ 64	1,978,785
Charges for Services	(2,300)	918,460	100	2,567,195	630	3,484,085
Investment Earnings	(17,010)	55,997		66,979	163,115	716,200
Fines and Forfeits	700	10,758		3,589		15,047
Sale of Documents, Merchandise and Property		13,340				13,340
Miscellaneous	15,798	100				15,898
Grants, Contracts, Donations and Abandonments		145,886			5,900	151,786
Other Financing Sources	600	2,162,632	1,345,299			2,163,232
Federal			96,814			1,345,299
Federal Indirect Cost Recoveries						96,814
Total Revenues & Transfers-In	16,123	7,242,976	1,442,518	2,637,847	169,709	11,956,292
Less: Nonbudgeted Revenues & Transfers-In						
Prior Year Revenues & Transfers-In Adjustments	210	115,348	305	85	236,495	356,387
Actual Budgeted Revenues & Transfers-In	(18,966)	(200,370)	(78,048)	872,032	(66,786)	507,862
Estimated Revenues & Transfers-In	34,879	7,327,998	1,520,261	1,765,730	0	11,092,043
Budgeted Revenues & Transfers-In Over (Under) Estimated	59,510	9,548,541	2,253,995	3,064,300	350,000	15,276,346
	\$ (24,631)	\$ (2,220,543)	\$ (733,734)	\$ (1,298,570)	\$ 0	\$ (4,184,303)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS						
Licenses and Permits	\$ 125	\$ (304,971)				\$ (304,846)
Taxes		(506,461)				(506,461)
Charges for Services	(19,500)	(725,154)		\$ (667,790)		(1,412,444)
Investment Earnings	(5,844)	(440,330)	\$ (250)	(624,422)	\$ 93,175	(977,671)
Fines and Forfeits	(300)	(26,542)		(6,258)		(33,100)
Sale of Documents, Merchandise and Property		(9,760)		(100)		(9,860)
Miscellaneous	798	(100)				698
Grants, Contracts, Donations and Abandonments		30,403				30,403
Other Financing Sources	90	(236,628)	(734,190)			(236,538)
Federal		(1,000)	706			(735,190)
Federal Indirect Cost Recoveries						706
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (24,631)	\$ (2,220,543)	\$ (733,734)	\$ (1,298,570)	\$ 0	\$ (4,184,303)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Private-Purpose Trust Fund	Permanent Fund	Total
Licenses and Permits							
Taxes	\$ 17,730	\$ 1,830,309					\$ 1,848,039
Charges for Services	276	1,242,272	\$ 517	\$ 119	\$ 305	\$ 1,892	1,245,381
Investment Earnings	13,100	750,690		298,538	314		1,062,642
Fines and Forfeits		103,264		136,582	195,011	444,789	879,646
Sale of Documents, Merchandise and Property		22,175		3,858			26,033
Miscellaneous		10,809					10,809
Grants, Contracts, Donations and Abandonments		4,240					4,240
Other Financing Sources		86,119			5,944		92,063
Federal		2,939,054	1,314,982				2,939,054
Federal Indirect Cost Recoveries			60,437				60,437
Total Revenues & Transfers-In	31,106	6,988,932	1,375,936	439,097	201,574	446,681	9,483,326
Less: Nonbudgeted Revenues & Transfers-In	276	121,204	518	375	243,602	446,652	812,627
Prior Year Revenues & Transfers-In Adjustments		9,892	181	(273,806)	(42,028)	29	(305,732)
Actual Budgeted Revenues & Transfers-In	30,830	6,857,836	1,375,237	712,528	0	0	8,976,431
Estimated Revenues & Transfers-In	40,288	10,528,619	4,785,973	3,006,020		1,659,567	20,020,467
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (9,458)</u>	<u>\$ (3,670,783)</u>	<u>\$ (3,410,736)</u>	<u>\$ (2,293,492)</u>	<u>\$ 0</u>	<u>\$ (1,659,567)</u>	<u>\$ (11,044,036)</u>
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Licenses and Permits							
Taxes	\$ (270)	\$ (332,836)					\$ (333,106)
Charges for Services	(288)	(2,620,703)	\$ (521)	\$ (120)		\$ (65,000)	(2,686,632)
Investment Earnings	(8,900)	(876,131)		(1,732,296)			(2,617,327)
Fines and Forfeits		(407,220)		(554,824)			(1,412,044)
Sale of Documents, Merchandise and Property		(8,325)		(8,152)			(14,477)
Miscellaneous		(10,891)	(100)	(100)			(11,091)
Grants, Contracts, Donations and Abandonments		3,940					3,940
Other Financing Sources		(11,195)					(11,195)
Federal		593,578	(3,308,932)			(1,144,567)	(550,989)
Federal Indirect Cost Recoveries		(1,000)	(101,183)				(3,309,932)
Budgeted Revenues & Transfers-In Over (Under) Estimated	<u>\$ (9,458)</u>	<u>\$ (3,670,783)</u>	<u>\$ (3,410,736)</u>	<u>\$ (2,293,492)</u>	<u>\$ 0</u>	<u>\$ (1,659,567)</u>	<u>\$ (101,183)</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2003

PROGRAM (SUBCLASS) EXPENDITURES & TRANSFERS-OUT

	Agricultural Development	Agricultural Sciences Division	Central Management Division	Total
Personal Services				
Salaries	\$ 973,231	\$ 1,827,057	\$ 500,282	\$ 3,100,570
Hourly Wages	86,161	51,858		138,019
Other Compensation	8,625	3,325		11,950
Employee Benefits	271,109	469,500	128,986	867,595
Personal Services-Other	12,315	(448)		11,867
Total	1,351,441	2,151,292	627,268	4,130,001
Operating Expenses				
Other Services	510,415	357,829	32,985	901,229
Supplies & Materials	33,201	173,952	21,921	229,074
Communications	57,058	71,374	9,360	137,792
Travel	154,057	89,834	16,437	262,128
Rent	43,792	68,368	24,892	137,052
Utilities	7,889			7,889
Repair & Maintenance	7,139	58,389	3,919	69,447
Other Expenses	332,285	52,100	13,161	397,546
Total	1,145,836	871,646	124,675	2,142,157
Equipment & Intangible Assets				
Equipment		14,985		14,985
Intangible Assets		37,430		37,430
Total		52,415		52,415
Grants				
From State Sources	929,883	2,595,957		3,525,820
From Federal Sources		3,240		3,240
Total	929,883	2,599,197		3,529,060
Benefits & Claims				
From State Sources	1,687,563			1,687,563
Total	1,687,563			1,687,563
Transfers				
Accounting Entry Transfers	15,108	401,657		416,765
Total	15,108	401,657		416,765
Total Expenditures & Transfers-Out	\$ 5,129,811	\$ 8,076,207	\$ 751,943	\$ 11,957,961
EXPENDITURES & TRANSFERS-OUT BY FUND				
General Fund	\$ 790,559	\$ 207,603	\$ 121,192	\$ 1,119,354
State Special Revenue Fund	1,948,411	4,548,045	453,754	8,950,210
Federal Special Revenue Fund	273,228	1,173,949	123,588	1,570,765
Enterprise Fund	1,990,995	114	53,409	2,044,518
Private-Purpose Trust Fund	126,618			126,618
Permanent Fund		146,496		146,496
Total Expenditures & Transfers-Out	5,129,811	6,076,207	751,943	11,957,961
Less Nonbudgeted Expenditures & Transfers-Out	251,753	602,262		854,015
Prior Year Expenditures & Transfers-Out Adjustments	(213,490)	(319,785)	(7,147)	(540,422)
Actual Budgeted Expenditures & Transfers-Out	5,091,548	5,793,730	759,090	11,644,368
Budget Authority	11,426,683	9,358,854	964,019	21,749,556
Unspent Budget Authority	6,335,135	3,565,124	204,929	10,105,188
UNSPENT BUDGET AUTHORITY BY FUND				
General Fund	\$ 405,291	\$ 32,748	\$ 71,775	\$ 509,814
State Special Revenue Fund	1,331,644	661,638	34,810	2,028,092
Federal Special Revenue Fund	256,743	2,866,477	93,855	3,217,075
Enterprise Fund	4,341,457	4,261	4,489	4,350,207
Unspent Budget Authority	6,335,135	3,565,124	204,929	10,105,188

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the beginning on page A-11.

MONTANA DEPARTMENT OF AGRICULTURE
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2002

PROGRAM (SUBCLASS) EXPENDITURES & TRANSFERS-OUT	Agricultural Development	Agricultural Sciences Division	Central Management Division	Total
Personal Services				
Salaries	\$ 894,812	\$ 1,568,959	\$ 493,603	\$ 2,957,374
Hourly Wages	43,604	45,121		88,725
Other Compensation	10,275	2,475		12,750
Employee Benefits	237,856	437,551	122,975	798,382
Personal Services-Other	(4,195)	(179)		(4,374)
Total	<u>1,182,352</u>	<u>2,053,927</u>	<u>616,578</u>	<u>3,852,857</u>
Operating Expenses				
Other Services	594,765	444,067	57,401	1,096,233
Supplies & Materials	77,683	230,877	18,519	327,079
Communications	52,209	62,455	10,054	124,718
Travel	195,287	88,434	18,383	302,104
Rent	35,020	65,806	24,657	125,483
Utilities	9,648			9,648
Repair & Maintenance	8,383	61,269	2,549	72,201
Other Expenses	779,497	39,442	27,771	846,710
Total	<u>1,752,492</u>	<u>992,350</u>	<u>159,334</u>	<u>2,904,176</u>
Equipment & Intangible Assets				
Equipment		139,573	8,938	148,511
Total		<u>139,573</u>	<u>8,938</u>	<u>148,511</u>
Grants				
From State Sources	1,570,426	2,263,418		3,833,844
From Other Sources	(173,775)			(173,775)
Total	<u>1,396,651</u>	<u>2,263,418</u>		<u>3,660,069</u>
Benefits & Claims				
From State Sources	1,766,634			1,766,634
Total	<u>1,766,634</u>			<u>1,766,634</u>
Transfers				
Accounting Entry Transfers	122,254	1,214,011		1,336,265
Total	<u>122,254</u>	<u>1,214,011</u>		<u>1,336,265</u>
Total Expenditures & Transfers-Out	<u>\$ 6,220,383</u>	<u>\$ 6,663,279</u>	<u>\$ 784,850</u>	<u>\$ 13,668,512</u>
EXPENDITURES & TRANSFERS-OUT BY FUND				
General Fund	\$ 1,392,909	\$ 211,239	\$ 222,100	\$ 1,826,248
State Special Revenue Fund	2,318,084	4,391,858	417,164	7,127,106
Federal Special Revenue Fund	383,651	872,320	82,894	1,338,875
Enterprise Fund	2,034,710	3,851	43,987	2,088,548
Private-Purpose Trust Fund	91,019		12,705	103,724
Permanent Fund		1,184,011		1,184,011
Total Expenditures & Transfers-Out	<u>6,220,383</u>	<u>6,663,279</u>	<u>784,850</u>	<u>13,668,512</u>
Less Nonbudgeted Expenditures & Transfers-Out	(84,189)	1,230,652	12,705	1,159,168
Prior Year Expenditures & Transfers-Out Adjustments	(168,176)	(3,699)	(321)	(172,196)
Actual Budgeted Expenditures & Transfers-Out	<u>6,472,748</u>	<u>5,436,326</u>	<u>772,466</u>	<u>12,681,540</u>
Budget Authority	12,089,373	8,186,131	1,021,996	21,298,102
Unspent Budget Authority	<u>5,617,225</u>	<u>2,749,805</u>	<u>249,532</u>	<u>\$ 8,616,562</u>
UNSPENT BUDGET AUTHORITY BY FUND				
General Fund	\$ 65,940	\$ 27,767	\$ 17,181	\$ 110,888
State Special Revenue Fund	939,514	282,888	118,182	1,340,584
Federal Special Revenue Fund	452,120	2,436,356	75,169	2,965,645
Enterprise Fund	4,159,651	794	39,000	4,199,445
Unspent Budget Authority	<u>5,617,225</u>	<u>2,749,805</u>	<u>249,532</u>	<u>\$ 8,616,562</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Department of Agriculture

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2003

1. Summary of Significant Accounting Policies

Basis of Accounting

The Department of Agriculture (department) uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, and Permanent). In applying the modified accrual basis, the department records:

Revenues when it receives cash or when receipts are measurable and available to pay current period liabilities.

Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual leave and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary (Enterprise) and Fiduciary (Private-Purpose Trust and Agency) fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period earned, when measurable, and records expenses in the period incurred, when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format is in accordance with the policy of the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The department uses the following funds:

Notes to the Financial Schedules

Governmental Fund Category

General Fund - to account for all financial resources except those required to be accounted for in another fund.

State Special Revenue Fund - to account for proceeds of specific state and private revenue sources (other than private-purpose trusts or major capital projects) that are legally restricted to expenditures for specific purposes. Department State Special Revenue Funds include activities related to registration and inspections of fertilizers and feed; grain inspections; wheat, barley, and alfalfa seed market research and promotion; and noxious weed management projects.

Federal Special Revenue Fund - to account for proceeds of specific federal revenue sources legally restricted to expenditures for specific purposes other than major capital projects. Department Federal Special Revenue Funds include Marketing Service, Centralized Service, and Agriculture.

Permanent Fund - to account for financial resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the department's programs. The department accounts for the Noxious Weed Management Trust in this fund.

Proprietary Fund Category

Enterprise Fund - to account for operations financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; or where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes. Department Enterprise Funds include the Hail Insurance and the Alfalfa Leaf Cutting Bee Programs.

Internal Service Fund - to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. The department does not have an internal service fund but an entry was made by the Department of Administration in error. This caused activity on the financial schedules.

Fiduciary Fund Category

Private-Purpose Trust Fund - to account for activity of all trust arrangements under which principal and income benefit individuals, private organizations, or other governments. Department Private-Purpose Trust Funds include Rural Development assets transferred to the state under the Rural Rehabilitation Corporation Liquidation Act. The department uses this fund to operate its Rural Development Loan Programs. GASB Statement 34 requires this activity to be recorded in a State Special Revenue Fund.

Agency Funds - to account for resources held by the state in a custodial capacity. The department Agency Funds account for commercial pesticide applicator certificates of deposit, held to ensure the public will be compensated if applicators are negligent. The department also holds certificates of deposit and letters of credit from commodity dealers, produce wholesalers, and public warehousemen to meet bonding requirements. Commodity dealers, produce wholesalers, and public warehousemen may also insure themselves through private bonding companies.

2. General Fund Balance

The negative fund balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund balances for each of the fiscal years ended June 30, 2002, and June 30, 2003.

3. Direct Entries to Fund Balance

Direct entries to fund balances in the General and Special Revenue funds include entries generated by the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) to reflect the flow of resources within individual funds shared by separate agencies.

Department Response



JUDY H. MARTZ
GOVERNOR

MONTANA DEPARTMENT OF AGRICULTURE

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MAR 11 2004

LEGISLATIVE AUDIT DIV.

March 1, 2004

Scott A. Seacat
Legislative Auditor
Room 135, State Capitol
Helena MT 59620-1705

Dear Mr. Seacat:

The Montana Department of Agriculture thanks the legislative auditor and his staff for the assistance provided during the audit. The following is the response to the audit recommendations for the two fiscal years ended June 30, 2003.

Recommendation #1A & B

We concur. The department will provide as much training as possible relating to proper accounting procedures and state accounting policy. A standard operating procedure will be developed and followed by the state hail program manager and accounting staff with oversight from the Central Management Division administrator for detailed financial schedule review.

Recommendation #2

We concur. Regretfully, errors were made when recording transfers or revenues and expenditures. The fiscal year 2002-2003 ending fund balances are correct and in conjunction with the previous recommendation we will do all we can to ensure errors do not occur in the future.

Should you have any questions regarding our response, please feel free to contact me.

Sincerely,

Ralph Peck
Director

